

UNIVERSITY OF TECHNOLOGY, SYDNEY

Faculty of Business

School of Accounting

**The Quality of Accruals and Earnings – The Role of Components of Accrual
Estimation Errors**

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CERTIFICATE OF AUTHORSHIP – ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

A handwritten signature in blue ink, appearing to be 'Nicolas Abdo', written over a horizontal line.

Signature of Student _____

(Nicolas Abdo)

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ABSTRACT

I investigate the quality of accrual components by employing the approach used by Dechow and Dichev (2002) to measure the quality of aggregate accruals and extending it to identifiable components of accruals. I provide some initial evidence concerning components of accruals and to what extent the quality of specific accruals components contributes to overall accrual quality. The initial results indicate that Australian firms exhibit similar aggregate accruals behaviour and characteristics to those reported by Dechow and Dichev. Relating to accrual component quality, I find that quality measures relating to receivables and supplier/employee costs generally are associated with firm characteristics, such as operating environment volatility, size, and length of operating cycle, in a manner similar to aggregate accruals quality. Other accrual component quality measures, however, do not appear systematically associated with any firm characteristics. The results also indicate that the aggregate accruals quality measure is consistently and strongly positively associated with the quality of supplier/employee-related accruals, though primarily for firms which report large magnitude working capital changes over time. Interestingly, the same firms tend to exhibit a negative association between aggregate accruals quality and receivables-related quality. Thus, for my sample of Australian firms it appears that aggregate accruals quality is largely driven by the quality of accruals for costs relating to suppliers and employees, rather than revenues.

Keywords: accruals, components of accruals, cash flows